Potential Changes to Employer Contribution Rates Webinar Q & A

Valuation Reports and Rates

Q: Can CalPERS post valuation reports on their internet site or distribute them by email, rather than mail out hard copies?

A: As mentioned in the Webinar, at this time CalPERS only has the capacity to mail out hard copies. Once the new My|CalPERS is up and running, all valuation reports will be provided by email in PDF format.

Q: Were the valuation reports sent to individual school districts or to COEs?

A: Neither. A circular letter providing information on the 2010-2011 rate was provided to school employers. Also a copy of the state and schools actuarial report is posted on the CalPERS website every year under actuarial reports.

Q: For a pooled plan valuation report, where can you find the interest rate sensitivity analysis?

A: For a pooled plan you can find the interest rate sensitivity analysis in the Section 2 report of the annual valuation, Appendix E.

Q: It's been said that in 2014-2015 the rates will not come down to the "normal" but will continue increasing. How long are we looking at here?

A: Keep in mind that rates are dependent on a lot of things, both plan specific and CalPERS-wide. Future investment returns will have a significant impact on whether rates will continue to grow or not. Keep in mind that CalPERS rate smoothing methods spread investment gains and losses over a 15 year period. Even if CalPERS were to earn its assumed 7.75% assumption every year, employer rates would be expected to continue to increase every year because of the 15 year smoothing of the 2008-2009 losses. On a plan specific level, please talk to your plan actuary on questions regarding how items such as plan demographics and payroll growth affect rates.

Q: Is there a way a city can make a lump sum payment in order to decrease the required contribution percentage?

A: Yes, lump sum payments can be arranged to completely pay off the year's rate, part of it, or even to pay off the unfunded liability or the side fund for your plan. Please talk to your plan actuary for more details.

Q: How long will side funds exist?

A: Side funds were created at the time CalPERS implemented risk pools to ensure that plans with varying funded status could participate in the same pool. Thus in general side funds will exist as long as pooling does. In regards to a side fund for a specific plan, each side fund is subject to a fixed amortization schedule. You can see in your report what that fixed amortization schedule is for your side fund. The number of years listed in the report is the number of years until your side fund will be paid off. After that amount of time, the side fund will disappear unless you improve benefits for your plan. Anytime an employer improves benefits for their plan, the side fund is adjusted to ensure the employer pays for the benefit improvement and a new 20 year amortization is established. As mentioned in the previous question, a side fund can always be eliminated by a single lump sum payment. Please talk to your plan actuary if interested in more information.

Demographic Assumptions and Service Purchases – "ARSC"

Q: Since purchasing ARSC is supposed to be cost neutral, who is paying the extra cost for employees who purchased ARSC just before the change in assumptions?

A: Remember that someone who purchases ARSC under the old assumptions will not necessarily add cost to an employer. Many factors will affect the actual cost impact including salary increases, age at retirement, and the number of years the member will receive a benefit for. There is no way to determine whether there is a gain or loss to the plan until actual death. When a gain or a loss does occur as a result of a service credit purchase, it ultimately goes to the employer.

Q: Is CalPERS considering canceling ARSC purchases to limit future impacts to employers?

A: No. CalPERS is an administering agent – it administers pension benefits as prescribed by California laws and regulations. As long as ARSC is listed as a possible benefit under the California Public Employees Retirement Law, CalPERS will provide that benefit, and has no intention of sponsoring legislation to attempt to change it.

Q: Will all of the actuarial assumptions you have presented be revisited in the near future?

A: Yes, the actuarial office is required by law to perform an experience study every four years that compares the demographic experience of all CalPERS members to the current actuarial assumptions and to recommend changes to these assumptions to the CalPERS Board when necessary.

Investment Return and the Discount Rate

Q: If the investment return is assumed at 7.75%, why do employee statements show an earnings rate of 6% on their vested balance?

A: Employee contributions are guaranteed to earn 6% per year by California Retirement Law. No matter what investments do from year to year, an employee can always refund their contributions with accumulated interest at 6%, even amidst extreme losses.

Q: It seems like there is a big lag in time between the earned investment return and when it actually affects rates. How does that work?

A: Currently there is a one year lag for state and school employers and a two year lag for local agencies. For example, for a state and school employer, the investment return for the 2009-2010 fiscal year are used to set rates 2010-2011, but for local agency employers the same return is used to set rates in 2011-2012.

Q: Will the CalPERS Board consider not lowering the discount rate at all, given the level of risk it assumes with investments? Could it possibly delay changing the discount rate until after the three-year phase in mentioned in the slides finishes so employers have time to prepare? Isn't the discount rate supposed to be based on a long-term expected yield, not just what's happened recently?

A: It is true that the discount rate used in the annual valuation is an estimate of expected returns over many years to come, not the short term. However that long term discount rate is determined by examining our current asset allocation chosen by the Board and projecting expected returns based on that allocation into the future. Most likely in February or March of 2011, the Board will determine what the appropriate discount rate is for the asset allocation it recently selected. If this is different than 7.75%, the best practice is to implement this immediately to continue to adequately fund the PERF.

Employee Cost Sharing and Lowering Benefits

Q: If an employer currently pays for their employee's contributions, can it switch and have the employees pay their own? What about employees starting to pay part of their share?

A: From the perspective of CalPERS, employees who had employers picking up their contributions can definitely start paying for some or all of their share. However, this should be bargained between employers and labor groups.

Q: Could you please go over employee cost sharing again in regards to benefit improvements? Is it related to employer paid member contributions? Can it be done on a pre-tax basis?

A: As mentioned in the presentation, employees can share the cost of optional benefit improvements. The maximum they can share is the increase in normal cost plus the increase in rate for a 20-year amortization of the increase in liability from the amendment. The shared cost from the amortization of liability would stop after 20 years. This cost sharing is independent from employer paid member contributions, and can be done on a pre-tax basis.